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The Kissinger Commission Report:
Agriculture and Foreign Assistance

Richard L. Meyer

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Agricultural Finance Program
Department of Agricultural Economics
and Rural Sociology
The Ohio State University
2120 Fyffe Road
Columbus, Ohio 43210

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by

Richard L. Meyer
The Ohio State University

The report of the National Bipartisan Commission on Central America (hereafter referred to as the Kissinger Report) called for a major U.S. economic commitment to Central America. The report projected \$24 billion in external financing needs now through 1990, for the six nations analyzed, of which \$12 billion is expected to be supplied by multilateral sources and most of the remainder by the U.S. The Commission recommended that the U.S. commit \$8 billion in assistance for a five-year period beginning 1985. This amount represents roughly doubling U.S. economic assistance from 1983 levels, and is over \$1,000 per capita for the 23 million people in the six countries.¹ This large amount of assistance could make a significant impact on these countries if used productively.

This paper summarizes the highlights of the Report with emphasis on agriculture since, as Adams has pointed out, six out of ten people live in rural areas in Central America, nearly a

¹ The Report covers six countries which are considered to be in crisis and which are expected to be benefitted by the proposed expansion in U.S. assistance. Disagreements with Nicaragua, however, may prevent that country from receiving the proposed aid. The six countries with their projected external financing needs in millions of dollars are: Costa Rica - \$5.1, El Salvador - \$5.5, Guatemala - \$4.5, Honduras - \$2.3, Panama - \$3.2, and Nicaragua - \$3.4.

quarter of the gross domestic product comes from agriculture, and farm products make up almost 70 percent of the value of exports. Thus, for foreign assistance to make a significant impact on the majority of the population, it must directly or indirectly influence the agricultural sector.

Overall Strategy

A central issue for the Commission concerned the nature of the challenge currently faced in the region, the origin of the problems and the overall strategy for solution. U.S. perceptions about the causes of the region's turmoil are mixed and the official U.S. view has changed from the Democratic to the Republican administrations. The Carter administration stressed the view that basic social and economic problems were the indigenous factors that prompted recent social upheaval. The Reagan administration, however, has argued that foreign subversion is primarily to blame. Not surprisingly, the "Bipartisan" Commission argued that the current crisis is a product of both indigenous and foreign factors and reported:

Poverty, repression, inequity, all were there, breeding fear and hate; stirring in a world recession created a potent witch's brew, while outside forces have intervened to exacerbate the area's troubles and to exploit its anguish. (p.15).

The Commission noted strong economic performance in the region from World War II through the mid-1970s. Regional gross domestic product increased at a rate of 5.3 percent per year in real terms between 1950 and 1978. However, the economic collapse beginning in the late 1970s, caused in part by world recession,

has resulted in declines in per capita income by 1983 ranging from 12 percent in Honduras to 38 percent in Nicaragua.

Based on this analysis, the Commission argued that a double challenge must be met. The overriding economic issue is poverty, slow growth and indebtedness, while the political challenges center on legitimacy of government where throughout the hemisphere democracy is becoming the rule but a Soviet-Cuban thrust is emerging. The Commission recommended financial aid, organizational innovations, and political and military changes to meet these challenges.

The Economic Program

The Committee's basic economic conclusion is that by 1990 per capita economic activity in the region will reach no more than three quarters of the 1980 level unless there is a significant increase in foreign assistance, improved resource use and growth-oriented policies. Therefore, an emergency stabilization program is proposed along with a medium- and long-term reconstruction and development program.

The emergency program is made up of eight recommendations:

- 1) The U.S. and the Central American countries should initiate a comprehensive approach to economic development;
- 2) the private sector should be given the greatest possible involvement;
- 3) the U.S. should actively address the external debt problems;
- 4) the U.S. should immediately increase economic assistance (a supplemental \$400 million request is proposed for fiscal 1984);
- 5) expanded aid should be directed to labor intensive infrastructure and housing;
- 6) new official trade credit guarantees

should provide emergency credit to the Central American Market Fund (CACMF); and 8) the U.S. should join the Central American Bank for Economic Integration (CABEI).

These emergency measures are admittedly "an effort to buy time to permit the Central American nations and their friends to build a broader structure of cooperation for the longer future" (p.50). The medium-term objectives (which are consistent with U.S. interests) include elimination of the climate of violence, development of democratic institutions and processes, development of strong and free economies, sharp improvement in social conditions of the poor, and substantially improved distribution of income and wealth. It is recommended that the U.S. contribute to long-term growth by 1) doubling financial assistance, 2) adopting multiple-year appropriations, 2) expanding economic assistance for democratic institutions and leadership training, 4) reviewing its non-tariff barriers to imports from Central America, 5) encouraging other major trading countries to adopt duty-free trade to Central America, 6) providing technical and financial support for export promotion, 7) encouraging the formation of a regional privately-owned venture capital company, 8) expanding availability of OPIC insurance, 9) developing aid programs to nurture small businesses, and 10) supporting the development of a regional structure (the Central American Development Organization - CADO) to provide a continuous and coherent approach to regional development.

The massive amount of financial assistance included in these recommendations is surprisingly inconsistent with the Caribbean Basin Initiative announced just two years earlier. As Alexander

notes, the Initiative rejected a massive transfer of resources as necessary or even desirable in favor of a Reaganomics concept of the market economy establishing a firm foundation for long-term growth. The change in emphasis may be a reflection of the cool reception the CBI has received and the rising respectability of protectionism in the U.S. The Commission's focus on the private sector is, of course, consistent with the Initiative and the direction of AID programs in the Reagan Administration.

Accelerating Agricultural Development

The Report's economic recommendations for agriculture are of special interest because of the sector's importance. Here the Report is surprisingly brief--only two pages. Although it is acknowledged that rural areas contain the majority of the poor and have the greatest potential for rapid growth (p. 57), the recommendations are few and the analysis is sketchy. Integrated rural development programs are encouraged which increase access to land and security of title, distribute land more equitably, provide credit supplies, avoid cheap food policies, and expand rural infrastructure, research and extension. The recommendations for the U.S. are limited to 1) strengthening the financial underpinnings of programs to broaden land ownership, 2) providing resources for credit and investment programs, and 3) increasing support for cooperatives.

By emphasizing secure access to land, the Commission recognized a major historical source of economic and political inequality which can be easily exploited by revolutionaries and contributes to the current crisis. Thus the Commission directs

U.S. attention toward long-term structural problems rather than just quick-fix supply-side economic solutions.

The Report is flawed, however, because it contains no attempt to quantify important issues associated with these recommendations such as the amount of unused or under-utilized land available for redistribution, the extent and incidence of distortions in agricultural pricing and trade policies, the economic losses in agricultural production due to damaged or destroyed marketing, communications and transport facilities, the production potential that could be realized through improved research and extension, the comparative advantage of these countries in international trade, and the borrowing and repayment capacity of farmers and rural businesses. Furthermore, there is not even an illustrative breakdown of possible allocation of foreign assistance among sectors or individual projects. An appendix with materials prepared for the Commission is promised for a later date. It may contain some of this information, but it is not now available to readers of the Report. The inescapable conclusion is that the Report gives cursory treatment to the crucial details of its economic recommendations, and gives surprisingly little attention to agriculture--the sector that employs most of the people, has the greatest short-term production potential and whose performance will have more impact than any other sector on the future economic and social welfare of these countries.

Possible Explanations for the Report's Recommendations

How could the Commission derive such a specific statement of financial need, yet produce such a superficial report on the rationale for these resources and their allocation? Is it possible that the Commission's economic analysis was as shallow as it appears? The answers to these questions require more knowledge than I have about the Commission, but we can identify alternative explanations for the contents of the Report.

One explanation is that the Commission did not receive enough economic information to conduct a more substantive analysis. This explanation is somewhat difficult to accept, however, because of the substantial effort made to collect information. The Commission met with nearly 200 people in Washington and with another 300 people in nine days of foreign travel, sent questionnaires to 170 selected outside experts, and received written material from 230 other individuals and groups. Presumably some of these persons were academics and representatives of agencies, such as AID and the Inter-American Development Bank, that have conducted substantive analyses of the economic problems and the agricultural sectors in the six countries.

Another possible explanation is that the Committee did not have the capacity, because of its composition and/or staff support, to conduct a more thorough economic analysis. Only one of the Commission members--Carlos F. Diaz-Alejandro--is an economist, and most of his professional work has been on general economics issues with little work on agricultural problems.

A third explanation is that the Commission's mandate was largely political. President Reagan was obviously seeking

support for his Central American policy and hoped that by selecting a panel with such politically visible persons as Henry Kissinger, Henry Cisneros, Lane Kirkland, and Robert Strauss, and by obtaining a consensus report, that broader-based U.S. policy could be developed. The details of the recommendations and analysis are less important in this situation than is consensus over broad strategy and goals. The Commission's task can be seen as reconciling competing views about the causes of the regional crisis and the appropriate U.S. response.

A fourth explanation is that the Commission members initially felt or became convinced during their deliberations that political and military issues were paramount. Thus a significant amount of the Report is devoted to analyzing regional security issues, past involvement of the U.S., Cuba, and the USSR in the Region, and the impact of the current crisis on U.S. interests.

A final explanation is that the Commission may have felt its appropriate role was to lay out broad economic goals and build support for a total foreign assistance package in Congress while leaving the details of analysis and implementation to professionals in the State Department and AID. Although Congress has tightened its control over the overall thrust of AID activities and the allocation of funds, individual country programs are thrashed out largely in the executive branch.

Symposium Objectives

A major contribution of the Commission was its rejection of simple explanations for the causes of the regional crisis and its attempt to link U.S. assistance to resolving long-term structural

economic problems. The superficiality of the Report's analysis and recommendations, however, raise serious issues which are the subject of this symposium. Reed Hertford will discuss the status of Central American agriculture as background to help evaluate the Commission's approach to the sector. Wayne Nilsestuen will discuss current U.S. bilateral programs in Central America and how they might be affected if the Commission's recommendations are adopted. Finally, Dale Adams will discuss possible disincentives for agricultural development that adoption of the recommendations might create.

Few definitive conclusions are expected from this session, but we hope to raise everyone's awareness about the complexity of Central America's agricultural problems and the appropriate U.S. response.

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